

Message Text

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15

ACTION AF-18

INFO OCT-01 EUR-25 ISO-00 IO-14 EB-11 AID-20 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10

SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15

DRC-01 /201 W

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R 121449Z DEC 73

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 9038

INFO AMEMBASSY BERN

AMEMBASSY LONDON

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

LIMITED OFFICIAL USE PRETORIA 4536

E.O. 11652: N/A

TAGS: EFIN, SF

SUBJECT: SOUTH AFRICAN GOLD AND FOREIGN EXCHANGE RESERVES

REF: PRETORIA 4408

1. SOUTH AFRICAN RESERVE BANK HOLDINGS FOR WEEK ENDING
30 NOVEMBER 1973 AS FOLLOWS (IN MILLION RANDS):

GOLD	566.1 (DOWN 3.1)
FOREIGN EXCHANGE	378.8 (DOWN 36.0)
TOTAL	923.9 (DOWN 39.1)

2. TERMINATION OF 1969 IMF GOLD AGREEMENT WAS ENDORSED
BY PRESS COMMENT WHICH TENDED TO MAKE MUCH OF APPARENT
FLEXIBILITY FOR SA TO USE GOLD AS ECONOMIC WEAPON. IN
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DECEMBER 11 STATEMENT TO LOCAL PRESS, HOWEVER, FINANCE

MINISTER DIEDERICH'S SAID THAT SA WOULD NOT FOLLOW AN IR-RESPONSIBLE GOLD MARKETING POLICY WHICH WOULD EXERCISE A DISRUPTIVE INFLUENCE ON THE PRIVATE MARKET. DIEDERICH'S STRESSED THAT THE SA GOVERNMENT BELIEVES IN INTERNATIONAL MONETARY STABILITY AND THAT GREATER FREEDOM WITH REGARD TO GOLD TRANSACTIONS WOULD, IN THE GOVERNMENT'S VIEW, TEND TO HAVE A STABILIZING INFLUENCE "PROVIDED ITS (GOLD'S) PRICE IS ADJUSTED TO A REALISTIC LEVEL."

3. CONTINUING ITS UPWARD CLIMB ON COATTAILS OF A STRENGTHENING DOLLAR, RAND RATE CLOSED FIRST WEEK IN DECEMBER SOME 3.6 PERCENT ABOVE JUNE 1973, DATE OF MOST RECENT REVALUATION. THIS, COMBINED WITH GRADUALLY WEAKENING BALANCE OF PAYMENTS POSITION, DECLINING RESERVES AND AN UNCERTAIN OUTLOOK FOR GOLD, HAS LED TO SOME SPECULATION IN INVESTMENT CIRCLES THAT ANOTHER DEVALUATION MAY BE IMMINENT. FOR EXAMPLE, SEDBANK ECONOMISTS SUGGESTED THAT SMALL DEVALUATION MIGHT BE FORTHCOMING IN ORDER "TO NEUTRALIZE THE EFFECT OF AN ECONOMICALLY UNJUSTIFIED RECENT STRENGTHENING OF THE RAND." AGAINST THIS POSSIBILITY, STANDARD BANK HAS FOR PAST TWO WEEKS BEEN QUIETLY ADVISING ITS CUSTOMERS WITH FOREIGN CURRENCY OBLIGATIONS TO COVER FORWARD. OTHER VOICES, HOWEVER, ARGUE THAT A DEVALUATION IS NEITHER IMMINENT NOR ECONOMICALLY JUSTIFIED. DECEMBER 7 FINANCIAL MAIL, FOR INSTANCE, POINTS OUT THAT SHARP DROP IN RESERVES IS BASICALLY HEALTHY SIGN OF EXPANDING ECONOMY AND BOOMING IMPORTS. AND DESPITE DECLINES, RESERVES REMAIN HIGH AND ABLE TO ABSORB PAYMENTS DEFICIT FOR SOME TIME. FM ADDS THAT DEVALUATION MAY BE CORRECT COURSE WHEN ECONOMY SLIDING INTO RECESSION BUT WOULD BE OPPOSITE OF WHAT IS NEEDED "WHEN GDP (EXCLUDING AGRICULTURE) RISING AT A RATE IN EXCESS OF 6 PERCENT A YEAR, WHEN CAPACITY IS RAPIDLY BEING USED UP, SUPPLY SHORTAGES ARE APPEARING, LABOR MARKETS ARE TIGHTENING, AND BASICALLY SOUND PREDICTIONS ARE BEING MADE OF ANOTHER BOUT OF DEMAND INFLATION."

4. COMMENT: IMPONDERABLE IN SA ECONOMIC PICTURE IS EFFECT OF ENERGY CRISIS ON ECONOMIC SITUATION. BUSINESS CONFIDENCE APPEARS TO HAVE BEEN SHAKEN BY ARAB OIL EMBARGO TO EXTENT THAT LONG AWAITED REVIVAL IN PRIVATE FIXED IN-LIMITED OFFICIAL USE

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VESTMENTS NOW APPEARS SOME DISTANCE DOWN THE PIKE. WITH RESPECT TO GOLD SALES POLICY, SA BASICALLY VIEWS NEW FLEXIBILITY AS PSYCHOLOGICAL OFFSET TO THREAT OF CENTRAL BANK SALES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 12 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PRETOR04536
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: PRETORIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731229/aaaaavgq.tel
Line Count: 112
Locator: TEXT ON-LINE
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: PRETORIA 4408
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 11 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11-Jan-2002 by martinjw>; APPROVED <01-Feb-2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOUTH AFRICAN GOLD AND FOREIGN EXCHANGE RESERVES
TAGS: EFIN, SF
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005